Northern
POWER SYSTEMS

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Filed via email to psb.clerk@state.vt.us

8 September 2009

Mrs. Susan Hudson, Clerk
Vermont Public Service Board
112 State Street – Drawer 20
Montpelier, VT 05602

Re: Docket No. 7523 – Implementation of Standard Offer Prices for SPEED Resources
and Docket No. 7533 - Establishment of Price for Standard Offer under SPEED Program

Dear Mrs. Hudson:

Northern Power Systems provides the following comments as related to the Report of the Standard Contract Working Group.

Northern appreciates the opportunity to respond to relevant issues in the Standard Contract Working Group. First and foremost, we would pay great compliments to Dave Mullett and Ed McNamara for their facilitation of numerous technical issues and the extensive amount of work that went into authoring the Standard Contract. They are to be commended. There were, however, several issues with which the group failed to reach consensus and which were outlined at the end of the Report. Northern would respond to those issues of interest.

Subdivision of the Queue

Northern Power supports the establishment of sub-caps within the Queue. While some participants have proposed a 20% cap by technology, we propose the Board set a simple 40% cap (20MW) for any single technology within the Queue. **This is the best, most transparent and simplest means of ensuring that any interim or long term price dislocations (created either by the PSB rates inadvertently being set too high/low or by fluctuations in market cost for technology) to not create a lopsided or inequitable program.**

While there is also substantial logic to set additional sub-caps by plant capacity size, and while this is supported by other feed-in tariffs and renewable energy incentive programs enacted elsewhere in the US, the PSB can easily address this through the use of pricing bands within a given technology. As part of our

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participation in the Cost Analysis Group, Northern submitted extensive research on wind cost by size and recommended pricing bands (sub-15kW; 16-100kW; 101-500kW; 501kW-2.2MW).

There are a number of reasons to establish technology sub-caps of no more than 40% per technology within the Queue, nearly all of which are in the best interest of Vermonters:

1. It acts as a ratepayer backstop to prevent any single high-cost technology from consuming almost the entire program.
    a. If for example large solar projects are offered a relatively high nominal price (whether that be the $300/MWh as set forth by Act 45 or another interim price), solar projects may consume most of the queue to the exclusion of other technologies that may take more time to develop but which might be more valuable, i.e. less cost. When considering the added burden of the Vermont Solar Tax Credit solar places on ratepayers, this potential situation would not be in the overall best interest of Vermonters.
    b. Projects of diverse technologies and plant capacity sizes support a broader array of the Vermont renewable energy economy (developers, installers, landowners, lenders).
2. It addresses, at least partially, the interaction between the CEDF and the Standard Offer program and provides time for the CEDF and PSB to harmonize rules and properly evaluate program impacts. For example, the Vermont Solar Tax Credit is paid out of the CEDF. Based on a simplified assumption of a $7,000/kW installed cost for solar, it would only take 4.77MW of installed solar capacity claiming the 30% VT Tax Credit to consume the entire two year grant budget of $10 million in the CEDF large-scale program. The impact of this type of tax liability transfer would provide sharp negative political consequences to the program.
3. During the "**interim period**" – from Oct 1 to Jan 15 – if the default pricing set forth by Act 45 is left in place, developers of some technologies at a $123/MWh rate (which would not meet the cost plus return specified by Act 45) will be disadvantaged versus solar at a $300/MWh rate (which may exceed the cost plus return rate) as they wait to see the "real" rates set on Jan 15. In that period, the Queue could easily fill up with solar projects based simply on the fact that other technologies would be waiting for rate adjustments by the PSB.
4. With an established "safety valve" by technology in the form of a 40% technology cap, the Board will have a reasonable time to measure the pace of deployment and program costs by technology, and ultimately be able to make future program price adjustments in the best interest of Vermonters.

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We note that both the DPS and others have spoken out in favor of establishing some form of sub-caps within the Queue and, by definition, the Standard Offer program.

"Other Products"

The Act clearly limits what is conveyed by the plant owner to the SPEED facilitator within the statement "Maximize the benefit to rate payers from the sale of tradeable renewable energy credits or other credits that may be developed in the future." Simply put, these are power contracts, not plant contracts. Ratepayers are paying only for generated electricity from the plant and the tradeable credits associated with that generated renewable energy. The Act makes no reference at any point to "other products" of any kind being conveyed within the Standard Offer. The introduction of such language in the contract – without definition, no less – seeks to attain ownership of goods which the Act does not require plant owners to convey. The language in the Standard Contract should rightfully utilize the specific language of the Act regarding "tradeable renewable energy credits or other credits that may be developed in the future."

Deposits

If the Queue is interpreted as being limited to 50MW by the Board, Northern Power believes that in addition to agreed upon milestones and fees paid to the facilitator, there must be some element of performance for projects entering the Queue in order to encourage only the most realistic projects to take up space. One potential method is to require developers to post in an escrow account a forfeitable "performance deposit" based on the size of the proposed plant capacity. One number that was widely discussed within the group, and which Northern concurs, is \$10/kW of installed nameplate capacity (\$10,000/MW). Along with a timetable of attainable milestones, this would encourage only the most viable and serious projects to take up space and deter speculative projects from sitting in the Queue. In addition, the progressive nature of such a deposit would not adversely affect smaller projects from applying and entering the Queue.

Thank you for this opportunity to comment.

Respectfully submitted,

Jim Stover
Vice President
Northern Power Systems